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SUBJECT: FY06 USDA FOOD FOR PROGRESS REQUEST

REF: SECSTATE 99922

¶1. Post recommends \$3 million of Hard Wheat for a Govt-Govt PL 480 Title 1 funded Food for Progress (FFP) for FY06, Sri Lanka. Sri Lanka does not produce wheat and its entire requirement is met through imports. The US has not competed effectively in the wheat market since the country's sole wheat mill was privatized. In the event hard wheat is unavailable, post is willing to accept viable alternatives for the Govt-Govt FFP program.

¶2. The monetized proceeds from the sale of wheat will be used to support programs aimed at reducing post-harvest losses in the country. Lack of proper post-harvest systems and technology has been identified as one of the biggest constraints impeding the growth of the local agriculture sector. It is estimated that the country's annual post-harvest loss of fruits and vegetables is around Rupees 9 billion (\$90 million), which is equivalent to 40 percent of the total fruit and vegetable output in the country. Lack of proper valued-added processes, stagnant food development technology, improper handling, transportation and storage are some of the reasons attributed to this significant loss at post-harvest. Up to 25 percent of losses at post-harvest are due to improper handling, packaging and transport. These factors contribute to Sri Lanka having some of the highest food prices in the region.

¶3. Additionally, farmers routinely do not obtain reasonable prices for their yields. Educating and providing technology transfer in marketing produce, including value addition, would help farmers generate sustainable income from farming activities.

¶4. The monetized proceeds will be used to set up post-harvest units to educate and train farmers in proper post-harvest practices and to develop infrastructure facilities such as storage to increase shelf life of the produce. Proceeds will also be used to promote post-harvest concepts developed by the Institute of Post Harvest Technology and Department of Agriculture to farmers through farmer organizations. Developing marketing channels in order to provide better prices for farmers is another important objective that will be addressed by the monetized proceeds. All agencies within the government in the agriculture sector would coordinate efforts to implement programs that will address these critical issues facing the agriculture sector.

¶5. The requested allocation of USD 3 million of hard wheat will not have an adverse impact on commercial sales. No wheat is produced in the country and the annual requirements of approximately 950,000 MT are met through imports. In 2005, approximately USD 150 million worth of wheat was imported into the country from Canada, Argentina, India, and Australia. Therefore, the requested FFP Grant amounts to less than 2 percent of total commercial imports, which is negligible in the context of the value of annual wheat imports into Sri Lanka.

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